

Inspector General

United States
Department of Defense



Independent Auditors Report on the
Department of the Navy's
Environmental Disposal for Weapons
Systems Audit Readiness Assertion

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November 12, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Independent Auditors Report on the Department of the Navy's
Environmental Disposal for Weapons Systems Audit Readiness Assertion
(Report No. D-2009-011)

We are providing this report for information and use. No written response to this report was required. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Edward A. Blair at (216) 706-0074 extension 226 or Ms. Laura J.S. Croniger at (216) 706-0074 extension 227. The team members are listed inside the back cover.

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ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
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SUBJECT: Independent Auditors Report on the Department of the Navy's
Environmental Disposal for Weapons Systems Audit Readiness Assertion
(Report No. D-2009-011)

We have examined management's assertion of audit readiness for the Department of the Navy's Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item reported on the General Fund Balance Sheet as of March 31, 2007. The Department of the Navy's management is responsible for its assertion of audit readiness. The January 10, 2007, Management Assertion for Environmental Liabilities (Environmental Disposal for Weapons Systems), Department of the Navy General Fund memorandum to the Department of Defense Office of Inspector General (OIG) sets forth the following criteria for the assertion of audit readiness. The Department of the Navy is responsible for: providing sufficient audit-ready evidential matter to support Environmental Disposal for Weapons Systems transactions; providing auditors with sufficient, appropriate audit evidence in a timely manner to complete the examination; and demonstrating its ability to sustain audit readiness in future periods. Our responsibility is to express an opinion on management's assertion of audit readiness based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards as stated in the Government Accountability Office's "Government Accounting Standards." Those standards require examining, on a test basis, evidence supporting the Department of the Navy's assertion of audit readiness for the Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item, and performing other procedures we considered necessary in the circumstances. Our objective was not to express an opinion on the balance of the Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item as of any specific point in time. We believe that our examination provides a reasonable basis for our opinion on management's assertion.

Our examination of management's assertion of audit readiness for the Department of the Navy's Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item reported on the General Fund Balance Sheet as of March 31, 2007, disclosed that the:

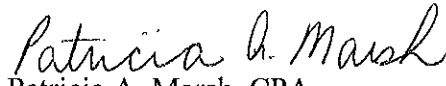
- Naval Sea Systems Command Financial Improvement Program team did not properly calculate and record the nuclear powered and non-nuclear portion of the Environmental Liabilities line item;

- Navy did not include all of the disposal costs related to its weapon systems in accordance with 49 Code of Federal Regulations 172.101 (2007) and the DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 13, "Environmental and Nonenvironmental Liabilities," October 2005;
- Naval Sea Systems Command Financial Improvement Program team did not ensure the adequacy or availability of the external source documentation from the Naval Vessel Register and the Hitchhikers Guide to Navy Surface Ships to support the environmental liability calculation. In addition, the team did not provide internal supporting documentation necessary to determine whether the environmental liability calculation was reliable and reasonable. Therefore, the Naval Sea Systems Command Financial Improvement Program team did not comply with the DoD Regulation 7000.14-R, volume 1, chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," May 1993; "Financial Improvement Initiative Business Rules," June 23, 2003; and the OIG memorandum, "Auditor Access for Financial Statement Audits," January 24, 2005; and
- Naval Sea Systems Command Financial Improvement Program team did not have sufficient internal controls over the review of the amortization workbooks.

In our opinion, the Department of the Navy's assertion of audit readiness for the Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item, as of March 31, 2007, is fairly stated in all material respects, except for the deviations from the criteria described in the preceding paragraph.

In accordance with *Government Auditing Standards*, we reported in detail the matters noted above to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the Assistant Secretary of the Navy (Financial Management and Comptroller), and the Director, Defense Finance and Accounting Service separately on October 10, 2008, in DoD IG Report No. D-2009-002, "Attestation of the Department of the Navy's Environmental Disposal for Weapons Systems Audit Readiness Assertion."

This report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the Assistant Secretary of the Navy (Financial Management and Comptroller), and the Director, Defense Finance and Accounting Service and is not intended to be and should not be used by anyone else. However, this report is a matter of public record, and its distribution is not limited.


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